AR30

1976 ANNUAL REPORT



O P I LTD.

(Incorporated Under the Laws of Alberta)

ANNUAL REPORT

SEPTEMBER, 1976

Directors

Perry S. Bower†	Winnipeg, Manitoba
Lloyd C. Garries*	Edmonton, Alberta
Nelson M. Davis	Toronto, Ontario
F. Newton Hughes*	Edmonton, Alberta
Maclean E. Jones, Q.C.	Calgary, Alberta
Barron Kidd†*	Dallas, Texas
V. J. Moroney†	Calgary, Alberta
J. D. McLaughlin	Midland, Texas
L. F. Swonek	Edmonton, Alberta

* Member of Management Committee
† Member of Audit Committee

Officers

Chairman	Barron Kidd
Vice-Chairman	F. Newton Hughes
President, Chief Executive Officer	L. C. Garries
Vice-President — Finance & Secretary	L. F. Swonek

Head Office

5105 - 75 Street, Edmonton, Alberta.

Transfer Agent and Registrar

Guaranty Trust Company of Canada.

Exchange Listing

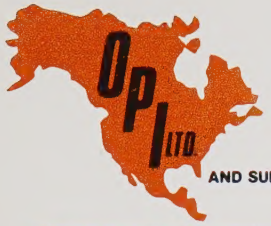
Toronto Stock Exchange.

Auditors

Thorne Riddell & Co., Edmonton, Alberta.

Annual Meeting

The Annual Meeting of the Shareholders of the Company will be held at the Chateau Lacombe, Edmonton, Alberta, at 11:30 a.m. on Saturday, January 22, 1977.



AND SUBSIDIARY COMPANIES

O P I LTD. is a diversified company providing goods and services primarily to the oil and gas industry. The company has two wholly owned operating subsidiaries, O P I Inc. of Texas, and Pembina Controls Ltd. of Edmonton, Alberta. Within this corporate group the undernoted six divisions function.

Oil Patch Rental — operates a general oilfield rental operation, mainly in Canada.

Gist Pumps — manufactures pumps, fluid ends and parts in Odessa, Texas, which are marketed on a world wide basis.

Cougar Tool — rents down hole tools directly to Canadian users and through agents in the United States, North Sea and the Middle East. The tools are manufactured in Edmonton and Odessa at company plants.

O P I Machine Shop — located in Edmonton, does general oilfield manufacturing and repair, and is largely responsible for the production of Cougar's down hole tools.

Pembina Controls — markets in Canada a wide range of metering devices, fittings, and valves, primarily to the oil and gas industry.

Centralizer and Scratcher — markets centralizers, scratchers and related items in the Permian Basin of Texas.

O P I Ltd. was incorporated in Alberta in 1960, became a public company in 1969 and expanded into the United States in 1973.

FINANCIAL HIGHLIGHTS

	1976	1975	Change
Revenue	$12,184,000	$ 9,272,000	+ 31%
Earnings from operations	976,000	391,000	+150%
Net earnings	1,129,000	391,000	+189%
Depreciation and amortization	1,113,000	883,000	+ 26%
Cash generated from operations	2,238,000	1,354,000	+ 65%
Capital expenditures — net	1,010,000	1,000,000	—
Dividends paid	99,000	—	—
Per share data			
Earnings from operations	$.88	$.35	+150%
Net earnings	1.02	.35	+189%
Cash flow from operations	2.03	1.23	+ 65%
Dividends paid	.09	—	—

OPI LTD AND SUBSIDIARY COMPANIES

TO THE SHAREHOLDERS

By any standards 1976 was an outstanding year for O P I Ltd. Record revenues of $12,184,000 showed an increase of $2,912,000 over those recorded in 1975. Earnings from operations were $976,000 or 88¢ per share as against $391,000 or 35¢ per share in 1975. In addition, sale of surplus land netted the company an extraordinary credit of $153,000 or 14¢ per share. A dividend of 4¢ per share, the first in the company's history, was paid on June 30, 1976 and was followed by a dividend of 5¢ per share on September 30, 1976.

After a period when all levels of government seemed intent on following their own policies without regard for the effect on the search for oil and gas in Canada, better political reasoning has prevailed, particularly in Alberta and British Columbia. As a result our customers have been able to increase their exploration expenditures substantially, particularly in the search for new supplies of natural gas. Our revenue increased substantially as a result of these expenditures and we expect exploration budgets to be even higher during the coming year. The United States is not as far along politically in the realization of the importance of cash flow to the exploration companies and there has been some hesitation there about committing the enormous sums that the industry will need to spend to maintain or increase oil and gas reserves. We are hopeful that with the election out of the way, the new President and the Congress will be able to agree on an energy policy which will lead to increased expenditures in the search for oil and gas.

OPERATIONS

OIL PATCH RENTALS

During the previous three year period of decreased exploration activity in Canada we maintained a policy of substantial capital expenditures in our Rental Division to upgrade and modernize our stock of rental equipment. With the increase in exploration activity in Canada we have enjoyed the benefits of this program and our income achieved a new high during this past year.

GIST PUMPS

A substantial portion of our sales and profits were again generated by our Pump Division, head-quartered in Odessa, Texas. During the year additional equipment was obtained and a night shift was added to handle the additional demand. Four acres of land adjacent to our present plant was purchased to allow for orderly expansion of our facilities.

COUGAR TOOL

Although this division obtained a reasonable volume of business, its return on investment was not satisfactory. Consequently the marketing of its tools was reorganized. It now, as before, operates its own rental operation in Canada but has entered into new agency agreements with Texas Reamer Inc., for the Western half of the United States and with Eastman Whipstock Inc., for the balance of the U.S.A., excluding Alaska, and for all overseas rentals. In September tools were shipped to the North Sea and Middle East, and these are now being rented.

OPI LTD. AND SUBSIDIARY COMPANIES

O P I MACHINE SHOP

The shop in Edmonton was helped considerably by the increase in exploration activity in Alberta and is now operating close to capacity.

PEMBINA CONTROLS

Pembina Controls continued to increase its market penetration and again their sales set a new record.

CENTRALIZER and SCRATCHER

The Centralizer and Scratcher Division was affected to some extent by a reduction of activity in their market area although they did turn in a satisfactory performance under the circumstances.

THE FUTURE

We believe the outlook for the coming year to be a positive one, particularly if activity picks up in the United States.

Our capital expansion and upgrading program in the Rental Division will continue during this coming year and we are forecasting another increase in revenue. This forecast is based on an expected 15-20% increase in exploration expenditures by our customers.

A modest expansion of the plant in Odessa will be completed during the coming year. This, coupled with prior expansion, will enable us to increase our pump production by about twenty percent. The Pump Division's orders are now considerably higher than they were at this time last year and the forecast is for another increase in sales and profits for the coming year.

Since a good portion of the world wide market for Cougar Tool will be handled on an agency basis, the gross revenue per tool rented will be lower, but it is expected that more tools will be rented. As a result a somewhat lower dollar volume is being projected but it is expected that operating profit will be improved. This division continues to be active in the area of research and a number of modifications have been incorporated in their main product, the shock tool.

With exploration expenditures at an expected new high in 1977, our Edmonton Machine Shop should achieve an increase in general oil field work. In addition, it is expected that a larger number of shock tools will be produced in this plant in 1977.

Pembina Controls' mix of business will change somewhat during the coming year. They have obtained some new lines which should increase the sales volume and our forecast is for an increase in both sales and profits.

The Centralizer and Scratcher division finished 1976 with increased monthly business and we expect this volume to be maintained in 1977.

OPI LTD. AND SUBSIDIARY COMPANIES

DIVIDEND POLICY

Your directors have approved a policy of paying quarterly dividends aggregating approximately twenty-five percent of the previous year's earnings, subject ti the restrictions inposed by the Anti-Inflation Act. Pursuant to this policy, a dividend of five cents per share was declared payable December 31, 1976 to shareholders of record December 15, 1976.

• • • • • •

The Company has recently been advised that the founder of the Company and the largest shareholder, Mr. Barron Kidd, of Dallas, Texas, has disposed of a substantial portion of his holdings in O P I Ltd. to a company controlled by Mr. Nelson M. Davis of Toronto. Since the end of our fiscal year Mr. Barron U. Kidd, Jr., of Dallas, has tendered his resignation and Mr. Davis has been added to your Board of Directors. Your Directors would like to express, on your behalf, sincere appreciation for the contribution that Mr. Barron U. Kidd has made to your company over the years.

The performance of O P I is dependent on the capabilities of all of the people associated with the company. During the year they continued to devote their energies and experience to the progress of the company. We would like to thank them for their loyalty and interest and a job well done.

On behalf of the Board of Directors.

L. C. Garries
President and Chief Executive Officer.

December 4, 1976.

OPI LTD. AND SUBSIDIARY COMPANIES

FIVE YEAR REVIEW

	1976	1975	1974	1973	1972
FINANCIAL RESULTS					
Revenue	$12,184,000	$ 9,272,000	$ 8,333,000	$ 5,879,000	$ 3,768,000
Earnings from operations	976,000	391,000	467,000	335,000	247,000
Net earnings	1,129,000	391,000	494,000	370,000	247,000
Depreciation and amortization	1,113,000	883,000	788,000	708,000	479,000
Cash generated from operations	2,238,000	1,354,000	1,484,000	1,132,000	757,000
Capital expenditures — net	1,010,000	1,000,000	1,909,000	1,483,000	1,371,000
Dividends	99,000	—	—	—	—
YEAR END POSITION					
Working Capital	$ 2,416,000	$ 1,683,000	$ 1,317,000	$ 1,285,000	$ (54,000)
Fixed assets — net	5,518,000	5,438,000	5,357,000	4,183,000	3,293,000
Total assets	11,577,000	10,288,000	9,759,000	7,619,000	5,560,000
Long-term debt	1,893,000	2,047,000	2,035,000	2,037,000	234,000
Shareholders' equity	5,536,000	4,506,000	4,115,000	3,162,000	2,754,000
STATISTICS PER SHARE					
Earnings from operations	$.88	$.35	$.44	$.36	$.27
Net earnings	1.02	.35	.46	.40	.27
Dividends	.09	—	—	—	—
Cash flow from operations	2.03	1.23	1.34	1.22	.83
Shareholders' equity	5.02	4.09	3.73	3.43	3.02

NOTE: The accounts of Pembina Controls Ltd. and O P I Inc. are reflected in the review from date of acquisition, being 1973 and 1974 respectively.

OPI LTD. AND SUBSIDIARY COMPANIES

CONSOLIDATED STATEMENT OF EARNINGS
FOR THE YEAR ENDED SEPTEMBER 30, 1976

	1976	1975
REVENUE	$12,184,000	$ 9,272,000
COSTS AND EXPENSES		
Cost of sales and other expenses	8,966,000	7,345,000
Interest on long-term debt	271,000	290,000
Other interest	109,000	175,000
Depreciation and amortization	1,113,000	883,000
	10,459,000	8,693,000
Earnings before taxes and extraordinary credit	1,725,000	579,000
INCOME TAXES (Note 6)		
Current	598,000	154,000
Deferred	151,000	34,000
	749,000	188,000
Earnings before extraordinary credit	976,000	391,000
Extraordinary credit		
Gain on sale of property	153,000	—
NET EARNINGS	$ 1,129,000	$ 391,000
EARNINGS PER SHARE		
Earnings before extraordinary credit	$.88	$.35
Extraordinary credit	.14	—
NET EARNINGS	$ 1.02	$.35

OPI LTD
AND SUBSIDIARY COMPANIES

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION
FOR THE YEAR ENDED SEPTEMBER 30, 1976

	1976	1975
SOURCE OF WORKING CAPITAL		
From operations	$ 2,238,000	$ 1,354,000
Sale of property, plant and equipment	839,000	537,000
Long-term borrowings	602,000	480,000
	3,679,000	2,371,000
APPLICATION OF WORKING CAPITAL		
Purchase of property, plant and equipment	1,849,000	1,537,000
Reduction of long-term debt	756,000	468,000
Dividends	99,000	—
Other assets	242,000	—
	2,946,000	2,005,000
INCREASE IN WORKING CAPITAL	733,000	366,000
Working capital at beginning of year	1,683,000	1,317,000
WORKING CAPITAL AT END OF YEAR	$ 2,416,000	$ 1,683,000

CONSOLIDATED STATEMENT OF RETAINED EARNINGS
FOR THE YEAR ENDED SEPTEMBER 30, 1976

RETAINED EARNINGS AT BEGINNING OF YEAR	$ 2,393,000	$ 2,002,000
Net earnings	1,129,000	391,000
	3,522,000	2,393,000
Dividends	99,000	—
RETAINED EARNINGS AT END OF YEAR	$ 3,423,000	$ 2,393,000

OPI LTD. AND SUBSIDIARY COMPANIES

CONSOLIDATED BALANCE SHEET AS AT SEPTEMBER 30, 1976

ASSETS

	1976	1975
CURRENT ASSETS		
Accounts receivable	$ 3,255,000	$ 1,928,000
Income taxes recoverable	—	130,000
Inventories		
Raw materials	640,000	667,000
Work-in-progress	155,000	194,000
Finished goods	1,431,000	1,567,000
Prepaid expenses	63,000	63,000
	5,544,000	4,549,000
PROPERTY, PLANT AND EQUIPMENT (Note 2)	5,518,000	5,438,000
OTHER ASSETS (Note 3)	515,000	301,000

Signed on behalf of the Board

L. C. GARRIES
Director

F. N. HUGHES
Director

	$11,577,000	$10,288,000

OPI LTD AND SUBSIDIARY COMPANIES

CONSOLIDATED BALANCE SHEET AS AT SEPTEMBER 30, 1976

LIABILITIES

	1976	1975
CURRENT LIABILITIES		
Bank indebtedness (Note 4)	$ 1,036,000	$ 1,619,000
Accounts payable and accrued liabilities	1,257,000	983,000
Income taxes	371,000	—
Current maturities on long-term debt	464,000	264,000
	3,128,000	2,866,000
LONG-TERM DEBT (Note 4)	1,893,000	2,047,000
DEFERRED INCOME TAXES	1,020,000	869,000

SHAREHOLDERS' EQUITY

CAPITAL STOCK (Note 5)		
Authorized		
2,000,000 shares of no par value		
Issued		
1,102,036 shares	2,113,000	2,113,000
RETAINED EARNINGS	3,423,000	2,393,000
	5,536,000	4,506,000
	$11,577,000	$10,288,000

NOTES TO 1976 CONSOLIDATED FINANCIAL STATEMENTS

1. ACCOUNTING POLICIES

(a) Principles of Consolidation

The consolidated financial statements include the accounts of the company and its subsidiaries, all of which are wholly owned.

(b) Foreign Exchange

The accounts of the company's foreign subsidiaries have been translated to Canadian dollars on the following basis:

1. Current assets and current liabilities, at the rate of exchange as at the balance sheet date.
2. Fixed assets, at the rate of exchange at the date of acquisition.
3. Long-term debt, at the rate of exchange on the date the debt was incurred.
4. Revenue and expenses (except depreciation) at the average rate of exchange for the year.

(c) Valuation of Inventories

Raw materials and work-in-progress are valued at the lower of cost and replacement cost. Finished goods are valued at the lower of cost and net realizable value.

(d) Depreciation

Depreciation has been provided in the accounts on the straight-line method at rates calculated to amortize the cost of the assets, less salvage value, over their estimated useful life. For certain rental equipment useful life is estimated productive hours with provision for obsolescence. Rates in use for the principal classes of assets are:

Land improvements	20%
Buildings	5% to 10%
Rental equipment	6% to 20%
Manufacturing equipment, furniture and fixtures	20%
Automotive equipment	25%

2. PROPERTY, PLANT AND EQUIPMENT

	1976			1975
	COST	ACCUMULATED DEPRECIATION	NET	NET
Land and improvements	$ 231,000	$ 60,000	$ 171,000	$ 150,000
Buildings	1,527,000	349,000	1,178,000	1,172,000
Rental equipment	5,370,000	2,161,000	3,209,000	3,014,000
Manufacturing equipment, furniture and fixtures	1,793,000	944,000	849,000	934,000
Automotive equipment	290,000	179,000	111,000	168,000
	$ 9,211,000	$ 3,693,000	$ 5,518,000	$ 5,438,000

OPI LTD AND SUBSIDIARY COMPANIES

3. OTHER ASSETS

	1976	1975
8½% Note receivable, due in 22 equal monthly payments	$ 444,000	$ —
Current maturities included in accounts receivable	202,000	—
	242,000	
Patents, at cost less amounts amortized	66,000	94,000
Excess of cost of acquired businesses over fair value of underlying assets	207,000	207,000
	$515,000	$301,000

4. LONG-TERM DEBT

	1976	1975
Bank term loan, interest at 1½% over Canadian prime bank rate	$ 1,423,000	$ 1,633,000
Bank term loan, interest at 1% over U.S. prime bank rate	375,000	—
9% Mortgages	509,000	477,000
7½% Mortgage	—	83,000
Other	50,000	118,000
	2,357,000	2,311,000
Current maturities	464,000	264,000
	$ 1,893,000	$ 2,047,000

Subsequent to the year end, all Canadian bank loans were refinanced at lower interest rates. A new equipment term loan of $1,500,000 (which may be increased to a maximum of $2,500,000) was obtained. The new term loan bears interest at 1% over the Canadian prime bank rate and is to be amortized over sixty months. All Canadian bank indebtedness will be secured by Canadian receivables, inventories and fixed assets, and will be evidenced by a debenture.

The U.S. bank loans are secured by certain U.S. receivables, inventories and fixed assets.

The estimated minimum principal payments required in the four years subsequent to 1977 are:

1978 — $546,000	1980 — $335,000
1979 — $375,000	1981 — $327,000

5. CAPITAL STOCK

The company has reserved 50,000 shares under a plan enabling the company to issue convertible promissory notes to employees. At September 30, 1976, no promissory notes had been issued.

6. INCOME TAXES

The provision for income taxes is net of investment tax credits and other tax incentives of $63,000 (1975 — $80,000).

7. REMUNERATION OF DIRECTORS AND SENIOR OFFICERS

Remuneration to directors and senior officers of the company and its subsidiaries totalled $214,000 (1975 — $197,000).

8. FEDERAL ANTI-INFLATION LEGISLATION

The company is subject to restrictions on dividends to its shareholders under the Federal Anti-Inflation legislation. Accordingly, dividends to the company's shareholders during the year ending October 13, 1977, the second compliance period of the legislation, may not exceed $282,000.

OPI LTD. AND SUBSIDIARY COMPANIES

Thorne Riddell & Co.

CHARTERED ACCOUNTANTS

AUDITORS' REPORT

To The Shareholders of
O P I Ltd.

We have examined the consolidated balance sheet of O P I Ltd. and its subsidiaries as at September 30, 1976 and the consolidated statements of earnings, retained earnings and changes in financial position for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at September 30, 1976 and the results of their operations and the changes in their financial position for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Thorne Riddell & Co.

Edmonton, Alberta
December 4, 1976.

AR30

O P I LTD.
P.O. BOX 5770, STATION "L",
EDMONTON, ALBERTA.
T6C 4G2

OPI LTD. OPI LTD.

INTERIM REPORT

FOR THE SIX MONTHS
ENDED MARCH 31, 1976

EDMONTON
ALBERTA, CANADA

TO OUR SHAREHOLDERS:

Our volume for the first six months of the 1976 fiscal year has shown a very satisfactory increase over the similar period in the previous fiscal year. Total volume slightly exceeded budget at $6,023,000 as compared with $4,709,000 in the similar period last year. Earnings from operations showed an even greater increase at $460,000 or 42 cents per share for the six month period ending March 31, 1976, as compared to $243,000 or 22 cents per share for the six months ending March 31, 1975. In addition, sale of surplus land netted the company an extra-ordinary credit of $148,000 or 13 cents per share.

Although we expected that volume in the last half of our fiscal year will not be up to the record figures achieved in the first half your Directors feel quite confident that it will provide us with substantially higher figures than have ever been attained in a similar period previously.

Drilling activity in Canada this past winter was much better than it has been for the last three years. Although there will not be as much activity during the last half of our fiscal year it should be much better than it has been in previous summers. Drilling activity in the United States continues to be hampered by price controls on oil and gas and may not improve substantially until there is additional Congressional action after the November elections. This had a direct effect on our Rental, Cougar, and Centralizer Divisions, with volumes being below budget in the U.S.A. but exceeding budget in Canada.

The Pump Division has had a very satisfactory first six months and it is expected that activity will continue at the present level for the last half of the year. The encouraging factor here is that our list of customers continues to expand.

Pembina Meter continues to increase its volume and earnings and it is expected that they will do even better in the second half. This Division continues to broaden its product mix and customer coverage and also its research activity in new products and services.

The Canadian Machine Shop enjoyed its best six months ever and has revised its budget upward for the last six months of the current fiscal year.

As shown by the enclosed cash flow figures our working capital position continues to improve as expected. Therefore with a great deal of pleasure your Directors feel that your Company can now adopt a definitive dividend policy. Subject to the rules of the Federal Anti-Inflation Act it will be their intention to follow a policy of paying dividends aggregating in each year 25 per cent of the earnings achieved by your Company in the previous year. Concurrently they have declared a dividend of four cents per share payable June 30th and four cents per share payable September 30th.

Your Directors are cautiously optimistic that the Company is now solidly positioned to obtain increased business and earnings.

Respectfully submitted on
behalf of the board

L. C. Garries
President

May 17, 1976.

O P I LTD.

And Subsidiary Companies

CONSOLIDATED STATEMENT OF EARNINGS AND RETAINED EARNINGS FOR THE SIX MONTHS ENDED MARCH 31, 1976

(Unaudited)

	1976	1975
REVENUE	$6,023,000	$4,709,000
COSTS AND EXPENSES		
Cost of sales and other expenses	4,410,000	3,599,000
Interest	196,000	209,000
Depreciation	587,000	519,000
	5,193,000	4,327,000
Operating Profit	830,000	382,000
INCOME TAXES		
Current	183,000	128,000
Deferred	187,000	11,000
	370,000	139,000
EARNINGS BEFORE EXTRAORDINARY ITEM	460,000	243,000
Gain on Sale of Property	148,000	14,000
NET EARNINGS	608,000	257,000
Retained earnings at beginning of period	2,393,000	2,002,000
RETAINED EARNINGS AT END OF PERIOD	$3,001,000	$2,259,000
EARNINGS PER SHARE		
From Operations	42c	22c
Extraordinary Item	13c	1c
Net Earnings	55c	23c

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION FOR THE SIX MONTHS ENDED MARCH 31, 1976

(Unaudited)

SOURCE OF FUNDS		
From operations, adjusted for non-fund items	$1,233,000	$ 793,000
Sale of property, plant and equipment	465,000	135,000
Long-term borrowing	500,000	306,000
	2,198,000	1,234,000
APPLICATION OF FUNDS		
Purchase of property, plant and equipment	816,000	970,000
Reduction of long-term debt	340,000	122,000
	1,156,000	1,092,000
INCREASE IN WORKING CAPITAL	1,042,000	142,000
Working capital at beginning of period	1,683,000	1,318,000
WORKING CAPITAL AT END OF PERIOD	$2,725,000	$1,460,000